Homeowner
Protection Office

SERVICE PLAN 2004–2007

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Honourable Murray Coell
Ministry of Community, Aboriginal and Women's Services
Minister Responsible for Housing
Province of British Columbia

Minister,

It is my pleasure to present to you the 2004/2005 to 2006/2007 Service Plan for the Homeowner Protection Office (HPO) in accordance with the *Budget Transparency and Accountability Act*.

In October 2003 the Homeowner Protection Office reached its five-year anniversary of its operations. Over the past five years, the office has introduced a system that significantly increased consumer protection for homebuyers as well as helped facilitate continuing improvement in the quality of residential construction in British Columbia. The HPO is "laying the foundation" for continued refinements to this system that benefits both the industry as well as consumers.

Under the direction of the provincial government, the HPO remains a Crown corporation responsible for licensing residential builders, research and education as well as financial assistance to many owners of leaky homes. The board of directors has been re-constituted to more closely represent the HPO's stakeholder base – consumers and the residential construction industry. The board of directors will develop recommendations to present to the Province regarding any changes it feels are warranted to the *Homeowner Protection Act* and regulations.

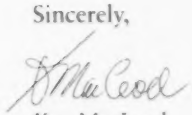
Consultation with the HPO's key stakeholders is an integral part of formulating these recommendations for change. For example a recent survey sent to all Licensed Residential Builders in the province indicated that 83% of respondents were satisfied with the HPO's licensing system, 63% believe the current level of abuse of the owner-builder exemption is a problem and 70% are in favour of introducing minimum education or training standards as a requirement of licensing. These survey results, combined with other consultation activities, will form the basis of the board's future suggestions for improvements of the existing system.

The second Building Envelope Research Symposium is in development for May 2004. In addition several HPO building science seminars on issues of interest in geographic areas outside the coastal climate zone are planned for delivery in various locations through-out the province, thus shifting our research and education focus to issues other than leaky condominiums. These initiatives will ensure that the latest research results continue to be transferred to members of the industry that can apply the knowledge in practice. Consumers will also benefit from our planned development of a new consumer protection guide for homebuyers.

This plan details our goals, objectives, strategies, performance measures and targets to strengthen consumer protection for homebuyers and homeowners, foster an improvement in the quality of residential construction and increase research and education in the areas of building science and consumer information. It also reflects recommendations provided by the province's Select Standing Committee on Crown Corporations made in November 2003. We have added a new performance measure regarding builder satisfaction, set higher targets in some instances and provided additional clarification where needed.

We are prepared to move forward on new initiatives that will further perpetuate the mandate of the *Homeowner Protection Act* as well as better serve the industry and consumers. We look forward to working with our stakeholders to build the future.

Sincerely,



Ken MacLeod
Chairperson

The Homeowner Protection Office (HPO) is a provincial Crown corporation formed in response to the need to introduce basic consumer protection legislation and regulatory improvements within the residential construction sector in British Columbia. The HPO was established under the *Homeowner Protection Act (Act)*, which was passed on July 28, 1998. The main purposes of the *Act* are to strengthen consumer protection for buyers of new homes and help bring about an improvement in the quality of residential construction in the province. The Homeowner Protection Office commenced operation in October 1998.

The Homeowner Protection Office has a staff of 34 and is responsible for:

- Licensing residential builders and building envelope renovators province-wide
- Monitoring the mandatory, third-party home warranty insurance system
- A research and education function designed to benefit the residential construction industry and consumers, and
- Delivering the Reconstruction Loan Program and administering the PST Relief Grant programs for owners of leaky homes.

Corporate Governance

* The Provincial Advisory Council on Homeowner Protection provides advice to the CEO relating to the *Homeowner Protection Act* and operations of the HPO.

Department Responsibilities

RESEARCH AND EDUCATION	LICENSING	LOANS	ACCOUNTING	COMMUNICATIONS
Support building science research Support consumer/ industry education and training Disseminate research results, and support establishment of "best practices" Provide input and advice on amendments to the building code	License residential builders and building envelope renovators Maintain registry of licensed builders and building envelope renovators Administer the *Homeowner Protection Act* and regulations as they pertain to residential builder licensing, home warranty insurance and exemptions for residential construction Collect license fees	Deliver Reconstruction Loan Program Administer the PST Relief Grant Program Participate at on-site strata meetings to provide information on financial assistance programs	Financial management of the HPO including financial reporting Human resources, information systems, and administration of the HPO	Issues management, communications planning and media relations Develop and implement strategies for consumer and industry communications Management of information line, Web site, events and publications Support HPO's education mandate

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Strategic Foundation

The vision, mission and values of the Homeowner Protection Office (HPO) form the basis of our operational planning, implementation and maintenance of our program areas.

Our Vision A responsive Crown corporation leading an improvement in the quality of residential construction and increased homebuyer protection in British Columbia.

Our Mission To develop and help maintain confidence in British Columbia's residential construction by:

- Administering and continuously improving the residential builder licensing system
- Monitoring the mandatory, third-party home warranty insurance system
- Maintaining a research and education function to benefit the residential construction industry, homeowners and homebuyers, and
- Providing financial assistance to qualified owners of leaky homes.

Our Values We are guided by our commitment to:

- Integrity
- Fairness
- Responsiveness
- Accountability, and
- Teamwork.

Planning Context and Key Strategic Issues

The Homeowner Protection Office (HPO) has identified key factors which may impact its operations and vision to increase consumer protection for homebuyers and help bring about an improvement in the quality of residential construction.

- **New HPO Board of Directors to Develop Recommendations**

  The provincial government has directed that the HPO will continue as a Crown corporation responsible for administering the residential builder licensing and home warranty insurance system, research and education, and financial assistance for owners of leaky homes.

  In addition the HPO board of directors has been re-constituted to include consumer and residential construction industry representation. The board of directors will present a report to the Province detailing their recommendations with respect to the future of the HPO including any changes to the *Homeowner Protection Act* and regulations. Any changes flowing from this report and recommendations will be reflected in future service plans.

- **Owner-Builder Exemption Abuse**

  The *Homeowner Protection Act* exempts owner-builders from licensing and mandatory home warranty insurance requirements. Although the *Act* stipulates that only individuals building a detached dwelling for their own personal use are eligible for the exemption once in any 18-month period, some land owners and unlicensed builders are abusing the system to avoid the licensing and warranty insurance requirements put in place to protect consumers. Abuse of the owner-builder exemption results in:

  - Inadequate consumer protection (false owner-builder exemptions mean that

new homes are constructed without meeting the requirements for licensing and warranty insurance). The ten-year statutory warranty on detached homes built under the exemption provides no guarantee of a buyer's ability to recover damages.
- Unfair competition for licensed builders who comply with the legislation and proliferation of the underground building economy
- Smaller underwriting pools for home warranty insurance providers, which can result in higher premiums for coverage, and
- Fewer financial resources available for the administration of the consumer protection regulations because licensing fees are not being collected.

Increased housing starts place additional pressure on the HPO's existing compliance staff to effectively monitor and investigate potential owner-builder abuse. Although the HPO has taken steps to reduce the abuse of this exemption through consumer education, compliance efforts and a more stringent application process, the HPO believes that changes to the *Homeowner Protection Act* and regulations are necessary to significantly decrease the abuse.

- **Stronger Housing Market and Increased Housing Starts**

The HPO is funded primarily through licensing fees. This service plan anticipates the continuation of a strengthening housing demand over the planning period, which will result in increased housing starts in B.C., more licensed builders, increased revenues for the office and a greater number of homes under construction to monitor for compliance. Favourable interest rates continue to entice many homebuyers into the market, resulting in higher sales of both new and existing homes. For residential builders this increase in demand for housing comes at a time of change in the insurance industry, as well as a growing skilled labour shortage which is anticipated to escalate as housing starts increase and construction for Vancouver's 2010 Winter Games is initiated.

In the unlikely event that the housing market declines over the planning period, the resulting lower level of revenue would restrict the performance of other program areas of the HPO such as building science research and consumer information programs.

- **Fluctuating Surplus and Deficit of the Reconstruction Loan Program**

The forecast for the Reconstruction Loan Program over the planning period shows a fluctuating surplus and deficit. This fluctuation is a result of several factors affecting the demand on the program and the supply of funds for the program.

Demand for the Reconstruction Loan Program is anticipated to continue to decrease over time as fewer owners apply for assistance and existing loans are repaid.

Reconstruction Program Forecast (excerpt from Financial Outlook Page 18, Table 3)

Year	Budget
2003/2004	$1.2 million
2004/2005	($1.3 million)
2005/2006	$.02 million
2006/2007	$1.2 million

Funding for the program occurs through the collection of a $750 reconstruction levy charged to Licensed Residential Builders on the construction of each new multi-unit home in the coastal climate zone. The Province provides bridge financing to the HPO to fund the Reconstruction Loan Program which will be repaid over time with the reconstruction levies collected from builders.

Total expenditures were previously shared equally by the provincial and federal governments until October 2003, when the federal government's set contribution of $27.7 million was exhausted. The cessation of the federal contribution creates a deficit position in 2004/2005 requiring the HPO to rely more on the Province's bridge financing to meet the demand for the program. In 2005/2006 and 2006/2007, demand for the program is anticipated to continue to decrease while more reconstruction levies are collected due to increased housing starts. Therefore, a surplus is then expected in these latter years of the planning period.

Although the cessation of federal funding for the Reconstruction Loan Program will likely create a deficit position in 2004/2005, eligible applicants for the no-interest loan program will continue to have access to necessary funding.

- **Changes in the Insurance Industry**

The insurance industry continues to be in a period of hard market conditions and restructuring. Major factors which have brought about this adjustment are: a downturn in profitability of investment markets, a continued increase in traditional natural disaster claims and unforeseen events such as the 2001 terrorist attacks in the United States. Providers of re-insurance, which is used by insurance companies to spread risk, continue to deal with substantial losses by raising their fees and seeking to limit the scope of their insurance coverage, either by excluding specific perils or by abandoning or selling off certain insurance lines altogether.

A recent example of this re-structuring was the decision by Kingsway General Insurance Ltd., a home warranty insurance provider in British Columbia, to cease underwriting new policies of home warranty insurance. Other factors influencing the insurance industry in B.C. include:

- Reduced availability of liability insurance for professional architects and engineers, as well as limitations placed on their policies to exclude building envelope failure related problems. This reduced availability of liability insurance has also been experienced by Licensed Building Envelope Renovators.
- A municipal reaction to the decision of the Supreme court of B.C. regarding Riverwest Estates in Delta and the Municipal Insurance Association's demand for limited municipal involvement in building design inspections
- The provincial Civil Liability Review which continues to examine topics such as limitation laws and joint and several liability, and
- A continuing concern in the industry over the issue of mould.

The adjustments taking place in the insurance industry are likely to place upward pressure on the cost of home warranty insurance in the future, affecting both residential builders and consumers of new homes or homes requiring building envelope renovations. As well, the reduction of the availability of liability insurance for professionals may result in a slow-down of multi-unit housing starts which would result in reduced revenue for the HPO.

- **Skilled Labour Shortage**

The British Columbia construction unemployment rate is decreasing and moving below the overall unemployment rate in the province (Statistics Canada, October 2003). The skilled labour shortage has officially arrived. Sixty percent of recently surveyed Licensed Residential Builders reported that they are currently experiencing difficulties finding qualified workers.

Trends of increased housing starts resulting from low interest rates, as well as numerous

major capital projects planned and underway in the province, is anticipated to create increased demand for skilled labour throughout the planning period of this service plan. Seventy percent of recently surveyed Licensed Residential Builders believe it will become more difficult to find qualified workers for residential construction over the next two years.

The supply of skilled labour is decreasing due to a number of factors including: an aging workforce, the slow growth of a young replacement workforce, competition for skilled labour also required to meet the needs of the industrial, commercial and institutional construction sectors, as well as trends in Canadian immigration policies that are less based on the needs of specific vocations.

This skilled labour shortage is anticipated to continue and intensify well past the planning period of this service plan. Results of this shortage could include:

- Licensed Residential Builders and Building Envelope Renovators may encounter delays in construction and an inability to meet demand in a timely manner
- Consumers of new homes may find inventories in shorter supply
- Housing prices may rise as trades are in shorter supply and likely command a higher prices for their services, and
- The HPO may encounter less than optimal revenues from this impediment on residential construction.

Introduction

The three goals for the 2004/2007 service plan period flow from the legislated mandate of the HPO as set out in the *Homeowner Protection Act (HPA)*. These goals are:

- Strengthen consumer protection for homebuyers and homeowners
- Foster an improvement in the quality of residential construction, and
- Increased research and education.

The HPO works in concert with industry and consumer stakeholders to implement the strategies and achieve the goals and objectives of this plan. Performance measures are established to ensure that progress is being made towards meeting these goals. Where possible, these measures are benchmarked against the performance of organizations in other jurisdictions, and/or against past performance.

Alignment with Provincial Government's Strategic Plan

The goals contained in this service plan also flow from the B.C. Government Strategic Plan's key goal of supporting a strong and vibrant provincial economy by fostering growth and consumer confidence in B.C.'s residential construction sector. This sector is a major economic driver in the province, contributing to the province's gross domestic product at a level that is comparable to other major industries in the province such as the forestry and utilities. Strong consumer confidence in the residential construction sector contributes to greater demand for new homes, and thus, creates new, higher-paying jobs and employment opportunities for British Columbians.

Key Changes from Previous Service Plan

This Service Plan is revisited and revised annually to take into account any changes to the planning context and strategic directions, as well as to refine goals, objectives, strategies, performance measures and targets. A number of key changes have been made to the 2004/2007 Service Plan compared to the previous year as follows:

- The description of goals, objectives and strategies has been changed significantly to more clearly show the linkages between goals and intended results, better reflect the broad mandate of the HPO and be more consistent with government terminology.
- A new performance measure has been added related to builder satisfaction with the licensing system. The other ten performance measures have been refined and clarified where necessary.
- In many cases the targets for performance measures have been made more aggressive to reflect recommendations made by the provincial Select Standing Committee on Crown Corporations in their November 2003 report.

Goal 1:

Strengthen consumer protections for homebuyers and homeowners.

This goal focuses on the HPO's role to monitor and ensure that the consumer protection mechanisms of the *Homeowner Protection Act (HPA)* are working effectively. It is projected that 27,000 to 30,000 new homes will be constructed in B.C. over each of the next three years in a strong housing market. British Columbia's system of licensing and mandatory, third-party home warranty insurance provides the buyers of these new homes with the assurance that their homes are built by a Licensed Residential Builder and backed by policies of home warranty insurance with a minimum of 2-5-10 year coverage. Minimum standards of home warranty insurance coverage is two years on labour and materials, five years on the building envelope including water penetration and ten years for structural defects. These minimum standards as well as obligations and responsibilities of both warranty providers and consumers are set out in legislation and regulation. The legislation requires a 10-year statutory warranty on single detached homes built under the owner-builder exemption unless home warranty insurance is provided.

Consumers who have protection under the *Homeowner Protection Act (HPA)*

- Buyers of new homes
- Subsequent buyers of newly-built homes with home warranty insurance still remaining
- Subsequent owners of owner-built homes which are still within 10 years of first occupancy
- Owners of homes with building envelope renovation warranty insurance
- Subsequent owners of homes that have building envelope renovation warranty insurance still remaining

This goal also encompasses other key consumer protection measures such as the HPO's role in providing financial assistance to owners of leaky homes who may otherwise lose their homes due to the cost of repairs, and monitoring the effectiveness the regulations for building envelope renovation warranty insurance. Although we believe we have exceeded the half way mark with respect to the repair of leaky buildings, a significant number have yet to be repaired with as many as one quarter of these homeowners on average requiring financial assistance to avoid foreclosure.

OBJECTIVES

- Consumers have confidence in residential construction.
- Homebuyers and homeowners benefit from consumer protections that exist under the *HPA*.
- Homeowners are able to keep their homes who might have otherwise lost them as a result of the cost of building envelope repair.

STRATEGIES

- Ensure legislative requirements of the *HPA* are met with respect to residential builder licensing, home warranty insurance and exemptions.
- Monitor key issues affecting consumers and develop/implement strategies to enhance consumer protections under the *HPA*.
- Continue to provide no-interest repair loans and PST Relief Grants to owners of leaky homes.

Performance Measures / Goal 1

	2004/2005 Targets	2005/2006 Targets	2006/2007 Targets
Homeowner satisfaction with home warranty insurance	85% or more homeowner satisfaction *Baseline:* 83% satisfaction in 2002/2003	Surveyed once every two years	90% or more homeowner satisfaction
Investigations resulting in voluntary compliance under the *Homeowner Protection Act*	80% or more voluntary compliance *Actual:* 76% in 2002/2003	83% or more voluntary compliance	85% or more voluntary compliance
Recovery of home values following building envelope renovation	60% or more of repaired homes have recovered 90% or more of the value of the cost of repairs in the assessed value of their homes. *Actual:* 55% in 2002/2003	65% or more of repaired homes have recovered 90% or more of the value of the cost of repairs in the assessed value of their homes.	70% or more of repaired homes have recovered 90% or more of the value of the cost of repairs in the assessed value of their homes.
Reconstruction Loan default rate	1% or less *Actual:* 0.85% in 2002/2003	1% or less	1% or less

GOAL 2:

Foster an improvement in the quality of residential construction.

Within the residential construction industry there is an ongoing commitment to raise the professionalism of the industry and to build a high-quality product for consumers. This goal also underlies the *Homeowner Protection Act* which sets out a broad framework for residential builder licensing and a means to set minimum requirements, including education and training, for becoming a Licensed Residential Builder. In this regard, the HPO's main challenges over the next three years are to work with the industry to "raise the bar" with respect to licensing requirements, and to address the issue of abuse of the owner-builder exemption which is a major concern to many licensed residential builders and threatens consumer protections.

OBJECTIVES

- Raise minimum standards for becoming a Licensed Residential Builder.
- Create a more level playing-field for Licensed Residential Builders with respect to false owner-builders.
- Level of residential construction defects is within industry norms.
- Responsive and flexible licensing system.

STRATEGIES

- Educational requirements planned for residential builder licensing.
- Implement strategies to reduce the abuse of the owner-builder exemption.
- Monitor claims activity to identify trends or issues regarding defects in new homes.
- Use of information technology to further simplify the builder licensing process.

Performance Measures / Goal 2

	2004/2005 Targets	2005/2006 Targets	2006/2007 Targets
Builder satisfaction with the licensing system	Surveyed once every two years *Baseline:* 83% in Nov/03.	88% or higher builder satisfaction	Surveyed once every two years
Homes built under the *Homeowner Protection Act* with warranty insurance claims	5% or less of homes with claims *Baseline:* to be established in 2003/2004. Proxy data in 2002/2003 indicated 5%	4% or less homes with claims	3% or less homes with claims
Timeliness of licensing decisions on complete applications.	3 business days or less *Actual:* 3.1 business days in 2002/2003	3 business days or less	3 business days or less

GOAL 3:
Increased research and education.

The legislated mandate of the HPO to carry out research and education represents an opportunity to make further advances in improving the quality of residential construction and consumer protections in B.C., and to pro-actively address emerging issues. Over the next three years the HPO plans to continue to work in partnership with industry, consumers, educational institutions and other government organizations to conduct practical research and carry out educational initiatives related to residential construction in B.C. Given the completion of several key pieces of research, for example, research on water penetration resistance of windows, increased emphasis will be placed on educational initiatives to transfer the knowledge gained from this research to builders, professionals, the trades and others involved in residential construction and design.

OBJECTIVES

- Research and education projects address key issues and questions of particular relevance to the residential construction industry and consumers in all regions of B.C.
- Research results help set the framework for improvements to the quality of residential construction and best practices.
- Consumers are better informed of existing consumer protection mechanisms, and are able to make more informed home buying decisions.

STRATEGIES

- Work with industry and consumer stakeholders to identify issues and priorities for research and education projects.
- Communicate the results of research and education projects to the industry and consumers.
- Work with industry partners to develop and deliver education and training initiatives.
- Create and deliver effective consumer protection resources and information tools for homebuyers and homeowners.
- Maximize resources for research and education through partnerships and collaboration.

Performance Measures / Goal 3

	2004/2005 Targets	2005/2006 Targets	2006/2007 Targets
Research results disseminated through symposiums, seminars or workshops	20 seminars/workshops plus symposium during this two-year cycle *Actual:* In 2002/2003 HPO research profiled at 9 education sessions; 3 research papers with HPO funding profiled at major building science conference		20 seminars/ workshops over the next two-year year period
Research results incorporated into building standards and best practices	HPO participation in federal and provincial building code process and develop best practice guide and training courses *Actual:* In 2002/2003 HPO provided input to National and Provincial building code committees, and CSA Committee on Building Products and Systems	HPO participation in federal and provincial building code process and develop best practice guide and training courses	HPO participation in federal and provincial building code process and develop best practice guide and training courses
Resources leveraged by the HPO through other funding partners	At least twice the amount invested by HPO leveraged through partnerships *Actual:* Contribution by partners represented 79% of project funding in 2002/2003	At least twice the amount invested by HPO leveraged through partnerships	At least twice the amount invested by HPO leveraged through partnerships
Homebuyer awareness of consumer protections under the *Homeowner Protection Act*	80% or more awareness of licensing 55% or more awareness of warranty insurance Baseline: 73% awareness of licensing and 45% awareness of warranty insurance in 2002/2003	Surveyed once every two years	90% or more awareness of licensing 70% or more awareness of warranty insurance

Description of Performance Measures

PERFORMANCE MEASURES	DESCRIPTION
GOAL 1:	**Strengthening consumer protections for homebuyers and homeowners.**
	Homeowner satisfaction — This measure tracks homeowner satisfaction with the protection provided by warranty insurance on their new home. Baseline data was obtained from a 2002 survey of homeowners with warranty insurance. The next homeowner survey will be carried out in the 2004/2005 fiscal year.
	Investigations resulting in voluntary compliance — This measure focuses on the effectiveness of HPO compliance activity in reducing abuse of the owner-builder exemption from licensing and home warranty insurance requirements as well as other violations of the *Homeowner Protection Act*. A target of 80% means that 80% of investigations by compliance staff confirmed and/or resulted in voluntary compliance with the *Act*. This measure is tracked annually. Note: the targets for this measure assume no legislative changes with respect to the owner-builder exemption. The introduction of legislative changes would result in greater compliance and a new performance measure would be developed.
	Recovery of homes' values following building envelope renovation — This measure, tracked annually, monitors the improvement of assessed values of homes with repair loans following the completion of building envelope renovations. The measure is calculated as the percentage of homes that have recovered 90% or more of the cost of repairs in the most recent assessed value of the homes.
	Reconstruction loan default rate — This measure tracks the effectiveness of the Homeowner's Reconstruction Loan Program in helping to ensure that homeowners don't lose their homes as a result of building envelope renovation costs. Loans are issued to qualified homeowners and housing co-operatives who have exhausted all other options to finance repairs. The data used for this measure is the number of loan defaults among homeowners with reconstruction loans, and is benchmarked against residential mortgage default rates in B.C. This measure is tracked annually.
GOAL 2:	**Foster an improvement in the quality of residential construction.**
	Builder satisfaction with licensing — This is a new measure that tracks Licensed Residential Builder satisfaction with the HPO licensing system. Baseline data for this measure was obtained through a 2003 survey of all licensed builders in the province. Sub-components of satisfaction being tracked include fairness of the rules/requirements, application and renewal process and timeliness of licensing decisions. The next survey of Licensed Residential Builders will be carried out in the 2005/2006 fiscal year.

Homes with warranty insurance claims — This measure is an important indicator of the quality of residential construction in British Columbia in terms of the number of claims made by homeowners for repairs under home warranty insurance. The number of claims is compared to the total number of homes enrolled during the specific period. It is anticipated that baseline data on claims from warranty insurance providers will be available for the 2003/2004 fiscal year. In 2003/2003 proxy data from the homeowner survey were used in lieu of data from warranty providers. This performance measure will be tracked annually and benchmarked against warranty insurance claims data from other jurisdictions.

Timeliness of licensing decisions — This is a measure of the HPO's responsiveness in making residential builder and building envelope renovator licensing decisions on complete applications. Specific targets are set to ensure that HPO licensing decisions are made quickly, thus avoiding unnecessary and potentially costly delays for residential builders. This performance measure will be tracked annually and benchmarked against other jurisdictions that register or license residential builders.

GOAL 3: **Increased research and education.**

Research results disseminated — Recognizing the critical role of ensuring that research results are disseminated to industry and consumers, this measure focuses on the HPO's participation in major research symposia or publications, and the delivery of educational sessions. This is reported annually.

Research results incorporated into building standards and best practices — This measure looks at the effectiveness of the HPO in ensuring that the results of research projects are incorporated into standards, codes and best practices. The performance measure tracks the HPO's participation on national and provincial code committees, and involvement in the development of best practice guides and training courses. This is reported annually.

Leveraging of additional research and education funding — This measure monitors the effectiveness of the HPO in leveraging additional resources for research and education initiatives with industry partners. The target is to leverage at least twice the amount invested by the HPO by other partners for active research and education projects.

Homebuyer awareness of consumer protections — This measure tracks new homebuyer awareness of the consumer protection measures in place in B.C., specifically licensing of residential builders and warranty insurance requirements. Baseline data for this measure has been collected through a survey of prospective buyers of new homes in the fall of 2002. The next survey will be carried out in the 2004/2005 fiscal year.

The forecast of revenues and expenditures for 2003/2004 through 2006/2007 is shown on Table 1 on the next page. The two main drivers of the financial plan are as follows:

1. The HPO must be self-sustaining from its own revenues.

As such, key assumptions for the financial plan, specifically the forecast of builder license fees, new construction and building envelope renovation activity as shown on Table 2 on page 18, determine the funding available to operate the HPO's programs, with the exception of the financial assistance programs. Over the forecast period, it is projected that the demand for new housing will remain strong, which provides incentives for builders to become licensed by the HPO or to renew their existing licences. This translates into higher revenues and greater demands for service.

2. The Homeowner's Reconstruction Loan Program must provide financial assistance to all eligible homeowners.

As shown in Table 3, this program fluctuates between generating surpluses and deficits. This fluctuation is a result of many factors affecting the demand for the program and the supply of funds available to perpetuate the program. These factors include:

Demand for Program:

- Demand for the no-interest loan program increased sharply at the onset of the program, then has declined over time. We estimate that more than half of the total number of building envelope repairs have been completed or are underway.

Supply of Funds for Program:

- The no-interest loan program is funded by a $750 reconstruction levy collected from Licensed Residential Builders on the construction of each new multi-unit home constructed in the coastal climate zone. The Province provides bridge financing to the HPO to fund the Reconstruction Program. This will be repaid over time with the reconstruction levies collected from licensed builders.
- A stronger housing market has made it easier for owners to sell their repaired homes and repay their no-interest loans. This situation increases the HPO's loan discount recoveries (HPO revenues) and reduces the interest subsidy expense.
- Total expenditures of the Reconstruction Loan Program were once cost shared equally by the provincial and federal governments until October 2003, when the federal government's set contribution of $27.7 million was exhausted. The provincial government will continue to provide bridge financing to the HPO for this program until the $750 per unit levy collected on the construction of new multi-unit homes in the coastal climate zone repays the loan from the Province.

Over a ten-year period, the program will generate sufficient surpluses to make payments on the HPO's loan from the Province and prepare for the retirement of the outstanding loan liabilities. The total loans outstanding are expected to start to decline after the 2006/2007 fiscal year.

Cost-Effective Partnerships

A joint service delivery model involving private sector partners minimizes the HPO's administrative costs. The licensing and home warranty insurance program is delivered in partnership with insurance companies approved by the Financial Institutions Commission to provide home warranty insurance in British Columbia. Financial institutions play a role in the Homeowner's Reconstruction Loan Program by providing the principal on most loans. In these cases, the Homeowner Protection

Office pays the interest on the loan to the financial institution on behalf of the owner. The HPO's research and education function is funded by builder license fees. To maximize available funding for needed research and education projects in the province, the HPO collaborates with key stakeholders to lever and pool additional funding.

Risks and Sensitivities

Forecast risks and sensitivities generally concern interest rates and the economy. A sharp rise in the interest rates or a downturn in the economy or housing market may have the following effects:

- Reduced revenues from builder licensing fees reflecting lower housing starts
- Increased expenditures for the interest subsidy and expenses related to the Homeowner's Reconstruction Loan Program, and
- A lengthened time for the HPO to repay the loan from the Province for bridge financing of the Reconstruction Loan Program.

Table 1: Homeowner Protection Office Budget Forecast

	2002/2003 Actual (000's)	2003/2004 Budget (000's)	2004/2005 Budget (000's)	2005/2006 Budget (000's)	2006/2007 Budget (000's)
REVENUE					
Builder license fees	$2,469	$2,525	$2,660	$2,660	$2,660
Reconstruction fee	7,150	8,750	10,500	10,500	10,500
Provincial contribution for program	3,982	5,165	5,059	5,281	5,281
Federal contribution for loan program	6,890	4,490	0	0	0
Interest	120	82	37	47	61
Loan discount recoveries*	2,833	3,055	2,986	3,104	3,001
Total Revenue	$23,444	$24,067	$21,242	$21,592	$21,503
EXPENDITURES					
Reconstruction loan grants	$6,827	$6,821	$3,465	$1,732	$577
PST Relief Grants	3,107	5,040	4,934	5,156	5,156
Interest subsidy for no-interest loans	4,353	6,265	9,044	9,302	9,546
Salaries and wages	2,232	2,155	2,127	2,127	2,127
Loss provision on no-interest loans	1,103	180	0	0	0
Operating expense	1,533	1,348	1,492	1,467	1,468
Interest expense	647	908	1,375	1,415	1,297
Research studies	115	100	100	100	100
Total Expenditures	$19,917	$22,817	$22,537	$21,299	$20,271
Surplus (Deficit) – All Programs	$3,527	$1,250	(1,295)	$293	$1,232
Surplus (Deficit) – Excluding Loan and PST Relief Grant Programs	$394	$0	$11	$36	$36

*The non-cash accounting entry required to amortize HPO funded loans appearing on the balance sheet of the HPO.

Table 2: Residential Builder Licensing and Construction Activity Forecast

The budget plan is based on the following forecast for licensing and construction activity for both new home construction and building envelope renovations in British Columbia.

	2002/2003 Actual	2003/2004 Forecast	2004/2005 Forecast	2005/2006 Forecast	2006/2007 Forecast
New residential builder licences ($600 fee)	1,035	1,000	1,100	1,100	1,100
Residential builder licence renewals ($500 fee)	2,418	2,500	2,500	2,500	2,500
New homes constructed – subject to $25 fee	20,634	27,000	30,000	30,000	30,000
New homes constructed – subject to $750 levy	9,534	11,667	14,000	14,000	14,000

Table 3: Reconstruction Program

The budget plan is also based on the following actuals and forecast for the Reconstruction Loan Program over the first 9 years of the program.

9 Year Actuals and Forecast
($ Millions)

	98/99 Actual	99/00 Actual	00/01 Actual	01/02 Actual	02/03 Actual	03/04 Forecast	04/05 Forecast	05/06 Forecast	06/07 Forecast
Total revenue	$ 0.1	$ 0.9	$ 12.4	$ 13.9	$ 16.9	$ 16.4	$ 13.6	$ 13.6	$ 13.6
Total expenditure	($1.3)	($ 5.2)	($11.9)	($14.7)	($13.8)	($15.2)	($14.9)	($13.4)	($12.4)
Surplus (Deficit)	($1.2)	($ 4.3)	$ 0.5	($ 0.8)	$ 3.1	$ 1.2	($ 1.3)	$ 0.2	$ 1.2
Total loans outstanding	$ 3.7	$ 27.9	$ 78.7	$130.0	$154.6	$170.5	$181.0	$186.8	$186.7
Due to Province	$ 8.0	$ 9.9	$ 15.0	$ 24.8	$ 25.3	$ 30.7	$ 36.7	$ 36.7	$ 33.7

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